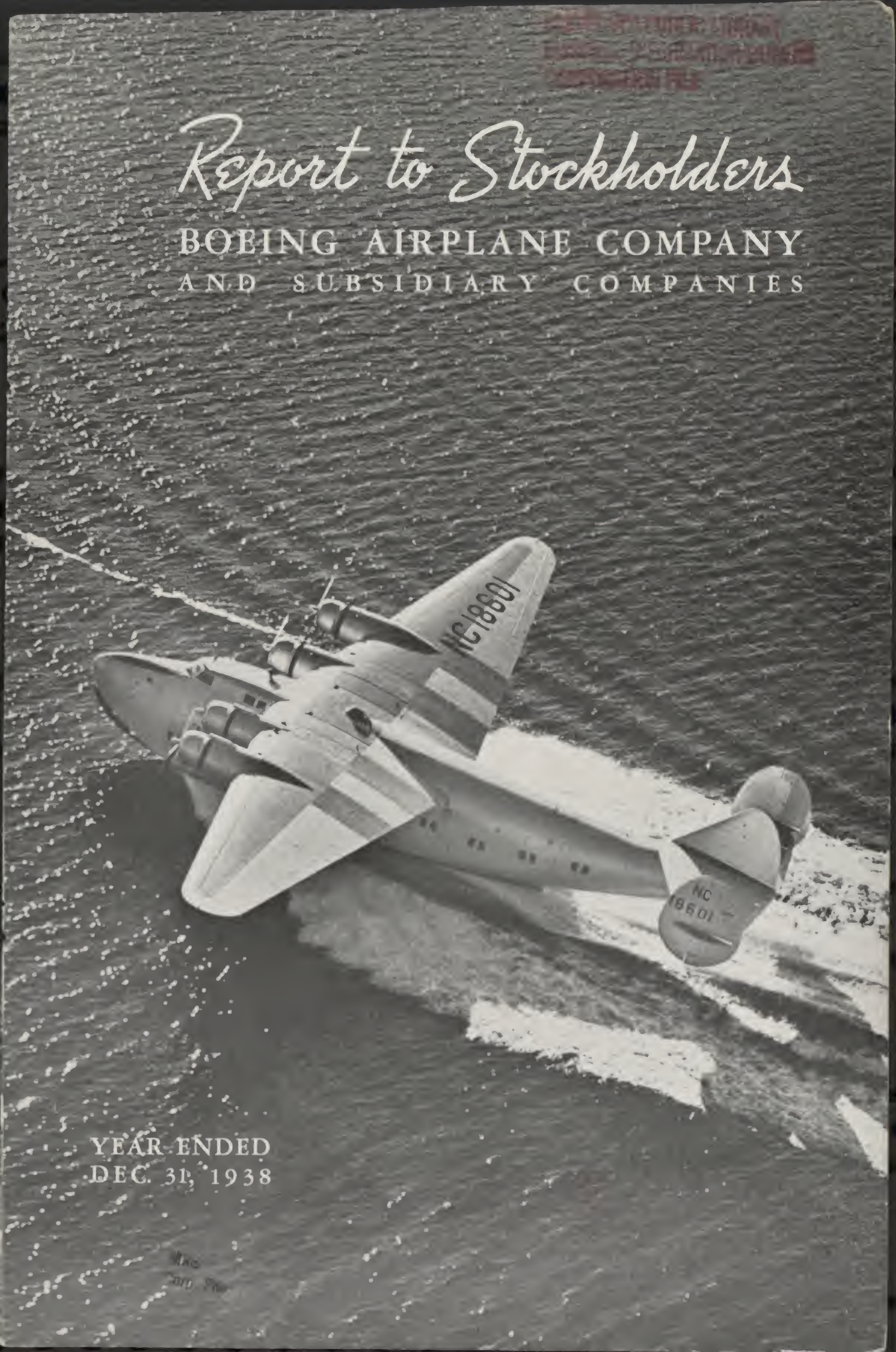

Report to Stockholders

BOEING AIRPLANE COMPANY

AND SUBSIDIARY COMPANIES

YEAR ENDED
DEC. 31, 1938

Cover Picture—*The Boeing Clipper*

ANNUAL REPORT

TO THE STOCKHOLDERS OF BOEING AIRPLANE COMPANY:

THE statement of consolidated income and surplus of your company and its subsidiary companies for the year 1938 and the consolidated balance sheet as of December 31, 1938 are submitted herewith, together with the report of Allen R. Smart & Co., independent certified public accountants.

It will be noted that the profit and loss statement shows a net loss for the year of $554,957.96, equivalent to 77c per share on the number of shares outstanding at the end of the year. Of this loss, $488,068.14 represents provision for a reserve against the Clipper project. This is more fully referred to later in the report.

During the year 1938, as proposed in last year's annual report, the properties of The Stearman Aircraft Company were taken over by the parent company, Boeing Airplane Company. The former unit is now operating as the Stearman Aircraft Division of Boeing Airplane Company rather than as a subsidiary corporation.

Your company now has but one direct subsidiary, Boeing Aircraft Company, which is wholly owned. Boeing Aircraft Company has, in turn, one wholly owned subsidiary, Boeing Aircraft of Canada Limited. Your directors intend, as soon as it is deemed practical, to further simplify the corporate structure by transferring the property and business of Boeing Aircraft Company to Boeing Airplane Company.

CHANGES IN CAPITAL STRUCTURE

During the year 1938 Boeing Airplane Company issued 26,273⅝ shares of capital stock (or scrip certificates) upon the exercise of stock purchase warrants of United Aircraft & Transport Corporation, which expired on November 1, 1938. The Company received a total of $445,038.77 for this stock, representing approximately $16.94 per share.

BANK LOANS

During the year it was necessary to borrow substantial amounts from banks. Total domestic loans have been reduced from a peak of $2,900,000 reached in January, 1939, to $2,030,000 on March 2, 1939. The remaining notes payable that are now outstanding will be retired as further deliveries of airplanes are made. However, if additional orders are received, necessitating further increases in inventories, the company will again incur indebtedness for that purpose. The Canadian subsidiary's contract is being largely financed by means of bank loans in Canada.

UNFILLED ORDERS

Following are comparative figures on the backlog of unfilled orders:

December 31, 1937	$14,112,298.49
December 31, 1938	14,894,918.47
March 1, 1939	14,664,991.73

ACTIVITIES OF OPERATING DIVISIONS

Stearman

During the year 1938, The Stearman Aircraft Company and its successor, Stearman Aircraft Division, continued to operate profitably. Fifty-five airplanes were delivered, most of which were primary training planes for the U. S. Army Air Corps while the balance were for the Philippine Army. The Stearman training plane continues to be recognized as the standard primary training plane for the U. S. Army Air Corps.

In response to a circular proposal issued by the U. S. Army Air Corps, this division undertook the design and construction of a new type attack bomber to be entered in a competition scheduled to be held in March, 1939. The airplane was substantially complete at December 31.

Boeing Aircraft Company

This subsidiary's payroll is at an all time peak, a condition which is reflected in the large increase in the inventory as shown on the

balance sheet. The large force was occupied during the year with the manufacture of six Clipper flying boats, ten Stratoliners and thirty-nine Flying Fortresses. The first flight of the Clipper was made early in the summer and thereafter the airplane was subjected to lengthy and comprehensive tests by the company and by officials of the Civil Aeronautics Authority. Upon the conclusion of these tests the Civil Aeronautics Authority issued an Approved Type Certificate for the Clippers and since January 1, 1939, four have been delivered. The remaining two are scheduled for delivery prior to July 1.

The first of the ten Stratoliner four-engine transports made its initial flight just prior to the close of 1938. This and succeeding test flights gave promise that the airplane will be outstanding in its class and will bring to the air transport field a new standard of performance and passenger comfort. Upon the completion of this preliminary test program, the cabin supercharging, heating and ventilating systems were installed in preparation for the high altitude and Civil Aeronautics Authority tests which are to begin this month. It is expected that the Stratoliners will be operating on commercial airways by early summer.

During the year 1938 a controversy developed which resulted in a termination by Boeing of its contract with Transcontinental & Western Air, Inc., covering the manufacture and sale of six Stratoliners. A down payment of $397,500 was retained as security against possible damages. At a later date Transcontinental & Western Air, Inc., likewise contended that the contract was terminated and that it intended to claim damages. The companies are now negotiating for a settlement of their differences, which settlement would involve a purchase by Transcontinental & Western Air, Inc., of an undetermined number of Stratoliners.

Deliveries of the 39 Flying Fortresses under present contract will probably begin in May, 1939, and continue during the remainder of the year, with the last delivery scheduled for early in 1940.

Boeing Aircraft of Canada Limited

Boeing Aircraft of Canada Limited, wholly owned subsidiary of Boeing Aircraft Company, continued manufacture of planes of English design under a contract with the Canadian government. The Air Ministry of the British government and the Ministry of Defense for the Canadian government have announced a policy that future contracts for airplane manufacture incident to the British and Canadian rearmament programs shall be placed only with companies controlled by British or Canadian nationals. Hence, it appears desirable to dispose of this subsidiary to Canadian interests if a satisfactory sale can be effected. Steps toward that end have been taken.

DEVELOPMENT EXPENSE

It appears desirable to point out again that due to unexpected wage increases in 1937, and for various other reasons, the costs of the Clippers and Stratoliners have materially exceeded the costs originally contemplated.

In the case of the Clippers, costs at December 31 were in excess of proportionate sales price and such excess costs were more than the company could reasonably expect to recover through future sales of this model airplane or design rights. The company has accordingly set up a reserve, by means of a charge to profit and loss, in the amount of $488,068.14, to provide for this contingency.

In addition, a portion of the development costs of both the Clipper and Stratoliner have been segregated and are shown on the balance sheet as deferred assets. It is contemplated that such deferred costs will be spread over future sales on an equitable basis to be determined as soon as it is possible to reasonably ascertain the probable number of each type of such airplanes and design rights which may be sold.

When referring to the Stratoliner project, the 1937 report said, "By reason of the large development cost of new model aircraft, it is necessary, in order to meet competitive prices, that such cost be absorbed by the sale of a substantial quantity of aircraft of that model." Whether a profit or a loss is realized on the Stratoliner project, and the amount thereof, will depend upon the total quantity or design rights sold and the prices obtained therefor. If sufficient orders do not materialize, any excess cost of production, including development costs, will be charged off. Based upon inquiries received and widespread interest shown, your officers believe that a

sufficient quantity of these airplanes or design rights will be sold to return a profit to the company.

The Clipper, however, because of its size and cost, naturally has a comparatively limited market. Consequently, the sale of a sufficient quantity of the Clippers, or design rights therefor, to amortize the development cost of this project, presents a much more difficult problem than do the Stratoliners.

SALES PROSPECTS

At the time the company was organized in August, 1934, its subsidiaries had little to offer aircraft buyers. The 1934 report stated, ". . . the officers . . . are convinced . . . that the manufacture of aircraft can be successfully carried on only by spending substantial sums in the development of new models . . ." In accordance therewith, the company launched a large development program in order to have a diversified line of new products.

The management calls attention to the results of this program. Your company now has aircraft which are recognized as being the finest in their respective classes in the world: the Model 314 flying boat (Clipper), the largest commercial airplane in the world today, designed for transoceanic passenger, mail and express service; the Model 307 four-engine land transport (Stratoliner), the first commercial airplane able to offer the comfort of normal atmosphere to passengers when flying at altitude; the Flying Fortress, which, because of its speed, range, load carrying capacity and reliability, continues to be the most effective weapon for national defense possessed by the air forces of this country, and the Stearman trainer, which for several years has been the U. S. Army Air Corps' standard primary training plane. In addition to these, the company also has the new Stearman attack-bomber, the sales prospects of which cannot yet be evaluated.

It will be seen that your company has three types of modern military airplanes available for the program of national defense being undertaken by our government. The management intends, moreover, to bend every effort to see that the new Stratoliners and Clippers take the place which they deserve in the air transport field.

By order of the Board of Directors.

Claire L. Egtvedt, *President.*

March 15, 1939

BOEING AIRPLANE COMPANY

CONSOLIDATED BALANCE SH

ASSETS

CURRENT ASSETS:		
Cash		$ 576,729.19
Notes and Accounts Receivable:		
Trade Notes and Accounts Receivable	$ 325,706.08	
Sundry Accounts and Accrued Interest	12,049.42	
	$ 337,755.50	
Less—Reserve for Doubtful Accounts	1,373.60	336,381.90
Inventories:		
Contracts and work in process (less reserve of $488,842.37) at the lower of cost or estimated proportionate sales value, less progress payments of $1,841,720.10 received or billed	$6,107,599.28	
Work in Process, at cost which may be in excess of realizable value (Note 1)	302,867.76	
Raw Materials and Finished Products (less reserve of $4,886.90) at substantially the lower cost or market	572,254.35	6,982,721.39
TOTAL CURRENT ASSETS		$ 7,895,832.48
NOTES RECEIVABLE MATURING AFTER 1939		7,950.00
INVESTMENTS AND OTHER ASSETS:		
Deposits with Mutual Insurance Companies	$ 31,938.75	
Miscellaneous Stocks, Contract and Real Estate, less reserve $36,171.64	7,645.26	39,584.01
FIXED ASSETS:		
Property and Equipment, at cost:		
Land and Buildings	$1,807,004.45	
Machinery, Tools and Equipment	939,989.05	
	$2,746,993.50	
Less—Reserve for Depreciation	811,756.43	
	$1,935,237.07	
Land, Buildings and Equipment of Stearman Aircraft Division at reduced values, less reserve for depreciation $59,830.40	174,274.04	2,109,511.11
DEFERRED DEVELOPMENT COSTS (NOTE 2):		
Flying Boats	$ 550,000.00	
Four-engine Transports	329,335.46	
Military	51,868.39	931,203.85
DEFERRED CHARGES:		
Prepaid Rent	$ 25,142.83	
Unexpired Insurance, etc.	14,907.89	40,050.72
TOTAL ASSETS		$11,024,132.17

NOTE 1: The work-in-process inventory stated at cost value of $302,867.76 represents one experimental military aircraft which was being constructed in response to a circular proposal wherein the U. S. Army Air Corps invited aircraft manufacturers to submit planes in competition, together with bids for varying quantities, on March 17, 1939. As of March 15, 1939, there is no way of determining whether this project will result in a profit or loss to the company.

NOTE 2: The management considers that a portion of the development costs of certain new model aircraft, of which limited quantities were under production at December 31, 1938, should be deferred and amortized over probable additional sales of similar products and/or design rights. The amounts being deferred were determined as follows:

Flying Boats—$550,000.00 represents the amount which, in the opinion of the management, the Company may reasonably expect to recover. The total cost of the flying boats to December 31, 1938, exceeded estimated proportionate sales price thereof by the amount of $1,038,068.14. The difference between this total excess cost and the amount of $550,000.00 being deferred, or $488,068.14, has been charged directly to profit and loss. The amount of $550,000.00 being deferred is substantially less than the estimated total development cost of the boats.

Four-engine Transports—$329,3
sent the amounts necessary to
aircraft at December 31, 1938, t
values thereof. These amounts
velopment costs incurred on the
1938. In the opinion of the mana
tion of recovering all of the dev

Determination of the number
costs will be amortized is being
able ascertainment may be mad
such products to be sold and/
from sale of design rights.

NOTE 3: During 1937 the Compa
contract for the sale of six four-
year 1938 a controversy develo
vendee which resulted in a termi
tract. Thereafter the vendee ass
perform its obligations under th
of it elected to terminate the co

AND SUBSIDIARY COMPANIES

IEET . . . DECEMBER 31, 1938

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Notes Payable—Banks		$ 2,786,268.18
Notes Payable—Trade		1,116.70
Accounts Payable—Trade		294,915.53
Accrued Wages, Taxes, etc.		365,744.54
Provision for 1938 Federal and Canadian Income Taxes		2,367.80
Deposit on Cancelled Sales Contract (Note 3)		397,500.00
Deposit on Terminated Sales Contract Held to Secure Possible Damages (Note 4)		42,285.00
TOTAL CURRENT LIABILITIES		$ 3,890,197.75
RESERVES:		
For Insurance	$ 26,921.34	
For Contingencies	12,133.17	39,054.51
CAPITAL STOCK AND SURPLUS:		
Capital Stock:		
Authorized 800,000 shares of $5.00 Par Value Issued and Outstanding 720,610½ shares and 448/8ths scrip	$3,603,332.50	
To be issued for Shares of Capital Stock of United Aircraft & Transport Corporation upon presentation for exchange—1,291½ shares	6,457.50	
	$3,609,790.00	
Paid-In Surplus	4,357,459.32	
	$7,967,249.32	
Earned Surplus (Deficit) (Notes 1 and 2)	872,369.41	7,094,879.91
TOTAL LIABILITIES AND CAPITAL		$11,024,132.17

35.46 and Military—$51,868.39 repre-
reduce the inventory value of such
o the estimated proportionate sales
are less than the estimated total de-
respective projects to December 31,
agement there is reasonable expecta-
elopment costs on these projects.
of units over which said development
deferred until such time as reason-
e as to probable total quantities of
or probable amounts to be realized

ny received a deposit of $397,500 on a
engine transport aircraft. During the
ped between the Company and the
nation by the Company of such con-
erted that the Company had failed to
e contract and that by reason there-
ntract. Each party has advised the

other that it will seek the recovery of any damages suffered. As of March 15, 1939, negotiations are being carried on between the Company and the vendee for the purpose of arriving at a mutually satisfactory settlement of the controversy.

NOTE 4: The Company also holds an irrevocable letter of credit for $125,000.00 as protection against further damages, if any, which may be incurred by reason of the termination by mutual consent of a sales contract covering one four-engine transport aircraft.

NOTE 5: As of December 31, 1938, there were two alternate options outstanding pursuant to which not more than six additional flying boats may be purchased. If additional flying boats are purchased pursuant to such options a profit or a loss may be realized thereon dependent upon when the options are exercised and the number of flying boats purchased. The exercise of such options under certain conditions might result in losses to the Company estimated at not to exceed $200,000.00. In the opinion of the management no substantial losses will be incurred by reason of such outstanding options.

NOTE 6: The Company was contingently liable with respect to pending claims and actions for alleged infringement of patents and other causes.

BOEING AIRPLANE COMPANY

AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Statement

Year ended December 31, 1938

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES		$2,006,345.48
COST OF SALES	$1,606,233.66	
PROVISION FOR RESERVE ON FLYING BOAT INVENTORY (Note 1)	488,068.14	
ENGINEERING RESEARCH EXPENSES	50,393.07	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	279,430.46	
PROVISION FOR DOUBTFUL ACCOUNTS	317.85	
DEPRECIATION	129,987.66	2,554,430.84
OPERATING LOSS		$ 548,085.36
OTHER INCOME:		
Discount on Purchases	$ 14,779.63	
Interest Earned	2,858.36	
Sundry	6,642.70	24,280.69
		$ 523,804.67
INCOME DEDUCTIONS:		
Interest Expense	$ 28,442.15	
Sundry	343.34	28,785.49
NET LOSS—Before Income Taxes		$ 552,590.16
PROVISION FOR FEDERAL AND CANADIAN INCOME TAXES		2,367.80
NET LOSS FOR YEAR (Note 2)		$ 554,957.96

NOTE 1: The amount of $488,068.14 represents provision made to reduce the inventory value of six flying boats to estimated proportionate sales value thereof at December 31, 1938, after deferring development costs thereon in the amount of $550,000.00.

NOTE 2: Specific reference is made to Note 1 on the accompanying balance sheet with respect to work-in-process inventory which may be valued in excess of realizable value. Specific reference is also made to Note 2 on the accompanying balance sheet with respect to Deferred Development Costs.

BOEING AIRPLANE COMPANY
AND SUBSIDIARY COMPANIES

Consolidated Earned Surplus (Deficit) Account

Year ended December 31, 1938

DEFICIT—January 1, 1938		$ 314,731.45
ADD:		
Net Loss for Year ended December 31, 1938	$ 554,957.96	
Cost of Minority Stock purchased which had no equity value	2,680.00	557,637.96
DEFICIT—December 31, 1938 (Note 1)		$ 872,369.41

NOTE 1: Specific reference is made to Note 1 on the accompanying balance sheet with respect to work-in-process inventory which may be valued in excess of realizable value. Specific reference is also made to Note 2 on the accompanying balance sheet with respect to Deferred Development Costs.

Consolidated Paid-in Surplus Account

Year ended December 31, 1938

BALANCE—January 1, 1938		$4,044,341.01
ADD:		
Excess over par of amounts received upon issuance of 26,273⅝ shares of Capital Stock (or scrip certificates) issued upon the exercise of stock purchase warrants of United Aircraft & Transport Corporation, less expenses in connection therewith $577.47	$ 313,093.18	
Refund from Liquidating Committee of United Aircraft & Transport Corporation	25.13	313,118.31
BALANCE—December 31, 1938		$4,357,459.32

ACCOUNTANTS' CERTIFICATE

BOEING AIRPLANE COMPANY
SEATTLE, WASHINGTON

We have made an examination of the consolidated balance sheet of Boeing Airplane Company and Subsidiary Companies as of December 31, 1938, and of the consolidated profit and loss statement and surplus accounts for the year ended that date. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts, but we did not make a detailed audit of the transactions.

A portion of the work-in-process inventory at December 31, 1938 which is valued at cost of $302,867.76 may be in excess of realizable value. Said inventory has been charged with all manufacturing and development costs of an experimental airplane for which there is no established sales price. By reason of the foregoing we are unable to express an opinion as to the amount of possible loss, if any, which may be sustained in connection with said inventory.

Development Costs, in the amount of $931,203.85, have been deferred on the Company's statements at December 31, 1938 to be amortized over subsequent sales contracts when obtained. The amounts being deferred were determined as set forth in Note 2 on the accompanying balance sheet. We are not qualified to express any opinion as to the value of the costs being so deferred.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of income and surplus, together with the footnotes appearing thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated position at December 31, 1938, and the results of their operations for the year.

ALLEN R. SMART & CO.
Certified Public Accountants

SEATTLE, WASHINGTON,
March 15, 1939.

BOARD OF DIRECTORS

WILLIAM M. ALLEN
Of Messrs. Todd, Holman & Sprague

HAROLD E. BOWMAN
Secretary and Treasurer
Boeing Aircraft Company

CLAIRE L. EGTVEDT
President and General Manager
Boeing Aircraft Company

P. G. JOHNSON
Seattle, Washington

FRED P. LAUDAN
Vice-President and Factory Manager
Boeing Aircraft Company

ROBERT J. MINSHALL
Vice-President and Assistant General Manager
Boeing Aircraft Company

PAUL PIGOTT
Seattle, Washington

J. EARL SCHAEFER
General Manager
Stearman Aircraft Division

DIETRICH SCHMITZ
Seattle, Washington

OFFICERS

CLAIRE L. EGTVEDT.......... *President*
J. EARL SCHAEFER.......... *Vice-President*
JAMES P. MURRAY.......... *Vice-President*
HAROLD E. BOWMAN.......... *Secretary and Treasurer*

General Counsel
TODD, HOLMAN & SPRAGUE

General Auditors
ALLEN R. SMART & CO.

Transfer Agent
CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar
THE NATIONAL CITY BANK OF NEW YORK, NEW YORK


U.S.
ARMY


U.S.
ARMY

AT LEFT—*Boeing Flying Fortress and Stearman Trainer*
BACK COVER—*Boeing Stratoliner*